

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00
EB-07 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02
LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 L-03 H-02 EURE-00 INRE-00
SSO-00 NSCE-00 USIE-00 AGRE-00 IGA-02 /120 W
-----251746Z 041443 /42

O R 251649Z MAY 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4338
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 19-25

SUMMARY: THE MARKETS REGARD THE U.K. ECONOMY THIS WEEK
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WITH RESERVE. THE POUND ENDURED A SHORT-LIVED SELLING WAVE
PRICES AND THE MONEY AGGREGATES ROSE NOTICEABLY. THE
FIRST ESTIMATES SHOWED GDP GROWING AND UNEMPLOYMENT
STEADY OR RECEDING. THE GOVERNMENT HAS AGREED TO MODIFI-
CATIONS IN ITS PROPOSED PRICE CONTROL LEGISLATION. IN-
VISIBLE EXPORTS ARE FORECAST TO BE STRONG AGAIN THIS YEAR.
END SUMMARY.

1. STERLING HAD A PROGRESSIVELY NERVOUS WEEK. WITH TUESDAY SEEING THE MOST SIGNIFICANT SELLING PRESSURE IN SEVERAL MONTHS. FORWARD DISCOUNTS ALSO WIDENED NOTICEABLY IN PROFESSIONAL AS WELL AS COMMERCIAL ACTIVITY. IN CONSEQUENCE, THE BANK OF ENGLAND SUPPORTED STERLING; MARKET ESTIMATES INDICATE UP TO \$100 MILLION ON TUESDAY. A KEY FACTOR CITED IS THE PROGRESSIVE NARROWING OF UNCOVERED STERLING INTEREST RATE DIFFERENTIALS AGAINST THE DOLLAR ON WEDNESDAY. THE POUND RECOVERED SOME OF ITS EARLIER LOSSES, RISING FROM \$1.7164 TO \$1.7184 BY NOON. LOOKING AHEAD, FOREIGN EXCHANGE MARKET OPERATORS PREDICT PERIODIC BOUTS OF STERLING NERVOUSNESS DURING THE PHASE THREE INCOMES POLICY NEGOTIATIONS. SOME FOREIGN EXCHANGE DEALERS CONSIDER THAT A BASIC REASSESSMENT, AND POSSIBLY SHIFT IN ATTITUDE, IS TAKING PLACE. AGAINST THE BACKGROUND OF RE-NEWED APPREHENSION ABOUT THE NEXT STAGE OF PAY POLICY. ESPECIALLY AFTER THE LARGE INCREASE IN RETAIL PRICES IN APRIL. UNCERTAINTIES EXIST ABOUT THE CURRENT IMF ARTICLE 8 EXAMINATION OF THE U.K. AND ITS IMPLICATION FOR THE EXCHANGE RATE.

2. RETAIL PRICES. THE RATE OF INFLATION CONTINUED TO MOVE UPWARD IN APRIL. THE INDEX OF RETAIL PRICES (JANUARY 1974 EQUALS 100) ROSE 2.6 PERCENT TO 180.4 FROM ITS MARCH LEVEL OF 175.8. THIS PUT THE RATE OF RETAIL PRICE INCREASE OVER THE 12 MONTHS THROUGH APRIL AT 17.5 PERCENT. ONE TIME TAX CHANGES IN THE MARCH 29 BUDGET ACCOUNTED FOR ABOUT HALF OF THE APRIL INCREASE, WITH HIGH-

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ER FOOD PRICES (UP 21 PERCENT IN THE YEAR THROUGH APRIL) ALSO CONTRIBUTING HEAVILY TO THE INCREASE. OVER THE 6 MONTHS THROUGH APRIL, RETAIL PRICES ACCELERATED TO AN ANNUALIZED RATE OF 20.7 FROM 13.0 PERCENT DURING THE PREVIOUS 6 MONTH PERIOD.

3. GROSS DOMESTIC PRODUCT. THE INITIAL OUTPUT BASED ESTIMATE OF FIRST QUARTER 1977 GDP INDICATES A SLIGHT RISE OVER THE PREVIOUS QUARTER. THE OUTPUT INDEX (1970 EQUALS 100) WAS ESTIMATED AT 109.5, AN INCREASE OF 0.5 PERCENT FROM THE FOURTH QUARTER FIGURE OF 109.0. THE ENTIRE RISE WAS MORE THAN ACCOUNTED FOR BY 1.4 PERCENT INCREASE IN INDUSTRIAL PRODUCTION. ACTIVITY IN OTHER AREAS OF THE

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CEA-01 PA-02 PRS-01 L-03 H-02 EURE-00 INRE-00
SSO-00 NSCE-00 USIE-00 AGRE-00 IGA-02 /120 W
-----251746Z 041689 /41

O R 251649Z MAY 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4339
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
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ECONOMY (TRANSPORT, DISTRIBUTION SERVICES, ETC.) DECLINED
BY 0.2 PERCENT DURING THE PERIOD. OVER THE 4 QUARTERS
THROUGH MARCH 1977, OUTPUT BASED GDP HAS RISEN 1.3 PER-
CENT.

THE SECOND ESTIMATE OF CONSUMER EXPENDITURE HAS RE-
SULTED IN A DOWNWARD REVISION OF TOTAL SPENDING BY 50
MILLIONPOUNDS TO 8.69 BILLION POUNDS (1970 PRICES). THIS
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BRINGS THE QUARTER TO QUARTER (4Q 76 TO 1Q 77) DECLINE
IN CONSUMER EXPENDITURE VOLUME TO 2.6 PERCENT. THE LARG-
EST DROP THIS DECADE. AS A RESULT. WHEN EXPENDITURE-

BASED GDP FIGURES FOR THE FIRST QUARTER BECOME AVAILABLE, IT IS LIKELY THAT THEY WILL SHOW A DECLINE FROM FOURTH QUARTER LEVELS.

4. UNEMPLOYMENT. UNEMPLOYMENT DECLINED SLIGHTLY IN MAY. SEASONALLY ADJUSTED AND EXCLUSIVE OF SCHOOL LEAVERS, A TOTAL OF 1.3159 MILLION PEOPLE (5.6 PERCENT) WERE WITHOUT WORK DURING THE MONTH TO MID-MAY. THIS IS A DECLINE OF 6,700 FROM THE MID-APRIL FIGURE OF 1.3216 MILLION. THE MAY FIGURE IS LITTLE DIFFERENT FROM THE TOTAL REGISTERED IN AUGUST 1976 AND THERE HAS BEEN SURPRISINGLY LITTLE VARIATION IN THE FIGURES OVER THE 8 INTERVENING MONTHS. MOST FORECASTERS HAD ANTICIPATED A GRADUAL RISE IN UNEMPLOYMENT DURING THIS PERIOD. SEVERAL EXPLANATIONS HAVE BEEN ADVANCED FOR ITS ABSENCE. FIRST' ON AN OUTPUT BASIS GDP ROSE AT AN ANNUAL RATE OF 3.5 PERCENT BETWEEN THE THIRD QUARTER OF 1976 AND THE FIRST QUARTER OF 1977 AFTER DECLINING AT AN ANNUAL RATE OF 0.9 PERCENT BETWEEN THE FIRST AND THIRD QUARTERS OF 1976. SECOND, REAL WAGES HAVE DECLINED BY NEARLY 5 P/C SINCE LAST SUMMER.BRINGING DOWN THE PRICE OF LABOR. FINALLY. GOVERNMENT PROGRAMS ARE CREDITED WITH KEEPING ABOUT 200.000 PEOPLE OFFTHE UNEMPLOYMENT REGISTER. IT IS ALSO POSSIBLE THAT PRODUCTIVITY MEASURED IN TERMS OF OUTPUT PER PERSON EMPLOYED HAS NOT RISEN AS RAPIDLY AS WOULD NORMALLY BE THE CASE AT THIS STAGE IN THE CYCLE.

5. STATISTICS FROM THE BANKING MONTH ENDED APRIL 20 SHOWED A 2.4 PERCENT INCREASE IN STERLING M3(S.A.) TO 40,200 MILLION POUNDS, A 3 PERCENT INCREASE IN TOTAL M3(S.A.) TO 44.430 MILLION POUNDS, AND A 4.6 PERCENT INCREASE IN M1(S.A.) TO 19.040 MILLION POUNDS. THESE ARE THE FIRST SUBSTANTIAL INCREASES OF THE CALENDAR YEAR IN UNCLASSIFIED

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THE M3 AGGREGATES, THE AGGREGATES STILL STANDING BELOW THEIR DECEMBER LEVELS. BANK LENDING TO THE PRIVATE SECTOR INCREASED 297 MILLION POUNDS AFTER TWO MONTHS OF DECLINE, WHILE LENDING TO THE PUBLIC SECTOR SHOWEDAN EXCEEDINGLY LARGE INCREASE OF 1026 MILLION POUNDS' THE LARGEST SUCH INCREASE IN THE FINANCIAL YEAR.

6. THE FIRST MONTHLY DOMESTIC CREDIT EXPANSION (DCE) STATISTICS WERE RELEASED WITH THE MONTHLY BANKING DATA. DOMESTIC CREDIT (S.A.) EXPANDED 799 MILLION POUNDS OVER THE MONTH TO MID-APRIL, CONTRACTED 68 MILLION POUNDS OVER THE THREE MONTHS TO MID-APRIL, AND EXPANDED 4,221 MILLION POUNDS OVER THE YEAR ENDED MID-APRIL. THE DCE FOR THE YEAR IS SUBSTANTIALLY BELOW THE 9 BILLION POUND DCE CEILING ADOPTED AS PART OF THE GOVERNMENT'S STABILIZATION

PROGRAM.

7. PRICE CONTROLS. LEGISLATION TO EXTEND EXISTING PRICE CONTROL AUTHORITY HAS BEEN AMENDED AS A RESULT. THE GOVERNMENT'S AUTHORITY TO LIMIT FIRMS' PROFIT MARGINS TO 1973 REFERENCE LEVELS' TO HOLD THE INCREASE IN DIVIDENDS PAID OUT TO 10 PERCENT' AND TO REFUSE PERMISSION TO RAISE PRICES TO FIRMS WHO EXCEED THE MAXIMUM PAY INCREASES PRESCRIBED UNDER INCOMES POLICIES WILL CEASE TO EXIST AS OF JULY 31, 1978. IN THE LIGHT OF THIS AMENDMENT, THE ONLY PRICE CONTROL AUTHORITY REMAINING AFTER AUGUST 1, 1978 WILL BE THAT PERMITTING SPOT INVESTIGATIONS AFTER WHICH REDUCTIONS IN PRICES MAY BE REQUIRED.

8. THE COMMITTEE ON INVISIBLE EXPORTS HAS FORECAST A 25 PERCENT INCREASE IN NET OVERSEAS INVISIBLE EARNINGS OF MAJOR U.K. SERVICE INDUSTRIES. THE LARGEST RISE IS EXPECTED TO BE IN BRITISH CONSTRUCTION WORK OVERSEAS. THE LOWER COST OF STERLING IS THOUGHT TO ENGENDER LARGE INCREASES IN TOURISM AND MAJOR U.K. AIRLINES. INCREASED WORLD TRADE IS PROJECTED TO INCREASE THE EARNINGS OF THE

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SHIPPING INDUSTRY BY 15 PERCENT AND THAT OF EXPORT HOUSES

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SSO-00 NSCE-00 USIE-00 AGRE-00 IGA-02 /120 W
-----251754Z 041470 /41

O R 251649Z MAY 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4340
TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN
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8-11 PERCENT

9. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
5/18	1.7186	61.6	146-7/8
5/19	1.7179	61.6	147-3/8

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5/20	1.7178	61.6	147-3/8
5/23	1.7172	61.6	146-3/8
5/24	1.7167	61.6	145-1/8

CHANGE 5/17-5/24 DOWN 0.0021 UNCHANGED DOWN 2-3/4

10. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/18	0.30	0.88	1.82
5/19	0.32	0.93	1.95
5/20	0.45	1.23	2.32
5/23	0.48	1.20	2.30
5/24	0.75	1.75	3.05

CHANGE 5/17-5/24 WIDENED 0.50 WIDENED 0

(ALL FIGURES IN CENTS)

11. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/18	5-1/4	5-3/4	6-1/8
5/19	5-1/2	5-7/8	6-1/4
5/20	6	6-1/8	6-1/2
5/23	5-1/2	6-1/8	6-1/2
5/24	5-3/4	6-1/4	6-3/8

CHANGE 5/17-5/24 UP 1/4 UP 3/8 UP 1/4

12. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE

5/18	1-11/16
5/19	1-19/32
5/20	1-13/32
5/23	L-3/8
5/24	1-5/16

CHANGE 5/17-5/24 NARROWED 1/4

13. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/18	7-5/32	7-7/16	7-13/16

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5/19	7-1/4	7-7/16	7-13/16
5/20	7-1/4	7-1/8	7-7/8
5/23	7-7/32	7-1/2	7-13/16
5/24	7-13/32	7-19/32	7-33/64

CHANGE 5/17-5/24 UP 7/32 UNCHANGED DOWN 21/64

14. THE MINIMUM LENDING RATE REMAINED AT 8 PERCENT. THE TREASURY BILL RATE FELL 0.0586 PERCENT TO 7.3445 PERCENT AT LAST FRIDAY'S AUCTION AS THE 400 MILLION POUNDS TENDERED ATTRACTED BIDS OF 747.12 MILLION POUNDS. THIS WEEK 450 MILLION POUNDS WILL BE OFFERED AS 300 MILLION POUNDS MATURE.

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Subject: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 19-25 SUMMARY: THE MARKETS REGARD THE U.K. ECONOMY THIS WEEK
UNCLASSIFIED
TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/906b498a-c288-dd11-92da-001cc4696bcc
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Margaret P. Grafeld
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